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Shopping Center Age

The magazine for retail management

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The Unique Ministry Of Dr. Tom Haggai

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with Shopping Center Age
The newsmagazine for retail management

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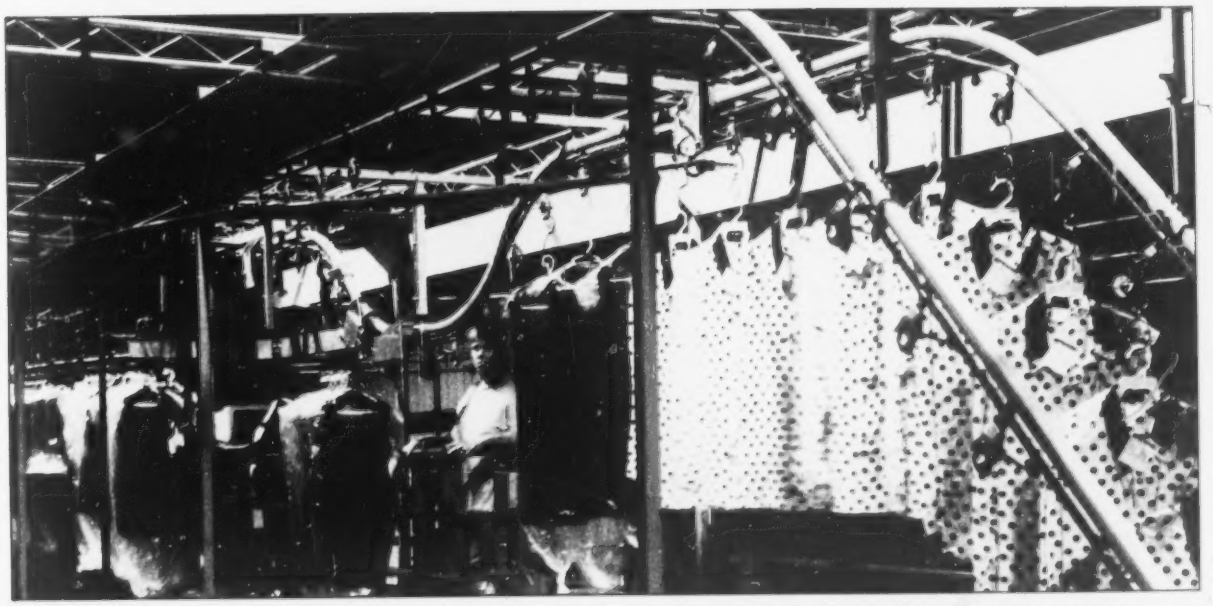

DESIGN BOOSTS FACILITY'S CAPACITY

Hanging garments move on a 70,000-sq.-ft. mezzanine level at Merry-Go-Round's 297,000-sq.-ft. distribution center in Joppa, Md. Effective use of what once was dead-air space makes the specialty apparel retailer's new facility equivalent to a 500,000-sq.-ft. center. The result is savings in lighting and HVAC costs. 72

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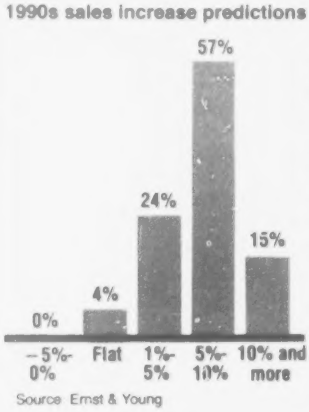
COMPUTER GLASNOST

Hot on the heels of McDonalds, ComputerLand has opened its first store in Moscow. The store is marked by an American flag and a large red banner which proclaims: "Business to business, person to person." Located close to Moscow University, the store is run by a New Jersey-based franchise whose president just happens to be a Soviet emigré.

AMERICAN SHOES GO TO TOKYO

Add yet another name to the list of American retailers heading East, the Far East this time. Johnston & Murphy, America's oldest shoe manufacturer, has opened up the company's first retail store in Tokyo. The new shop is owned and operated by the Tokyo-based firm Chiyoda through agreement with Johnston & Murphy. To capitalize on Japanese fondness of American pop culture, the shop features a potpourri of Americana memorabilia, including a portrait of Babe Ruth and a presidential shoe display.

TOUGH TIMES AHEAD



With 1989 sales results still too fresh to be a distant memory, most retail executives are predicting slow and tough growth in the 1990s, according to a survey by Ernst & Young's Retail Services. More than half (57%) of surveyed executives are predicting annual sales increases of 5% to 10%, while 30% of those surveyed anticipate annual growth below 5%. The survey also indicates that executives believe the 1990s will be highly competitive, with further consolidation of retail companies. They expect that merchandise category leaders will be women's apparel, followed by household products and consumer electronics, with children's items slipping as the population ages.

ONLY THREE TIMES A YEAR

Dillard is winning praise from analysts for bucking the sales fever that has overtaken much of the retail industry. The Little Rock, Ark.-based department store has trimmed down its 1990 promotional calendar to only three store-wide sales annually. Although Dillard has greatly reduced its store-wide events schedule, the retailer has not reduced its sales promotion budget. Instead, funds have been reallocated to full-price fashion advertising that emphasizes name brands and enhances Dillard's quality image. Analysts predict the new calendar and pricing strategy will result in higher margins through fewer markdowns, better in-stock positions and less fluctuation in inventory.

INSIDE TRADING

It's not unusual for large supermarkets to rent space around their perimeters to small stores and boutiques. In Meridien, Miss., however, they've quite literally built a store within a store. In the center of a 55,000-sq.-ft. Sack and Save store (the warehouse store format of Jackson, Miss.-based Jitney Jungle Stores of America) is a 5,000-sq.-ft. Bill's Dollar Store. There are no walls around it—just a canopy that hangs overhead—and no separate cash registers, either. Customers bring selections to Sack and Save's front end, and bar codes tell the front office whose sale is whose. Bill's, also based in Jackson, is a variety retailer that sells clothes, shoes, electronics, home furnishings, toys and housewares. The chain has 530 stores in the South and Southwest ranging from 5,000 sq. ft. to 9,300 sq. ft.

WHAT'S SHAKIN' IN NORTH CALIFORNIA?

MATURE MARKETS POINT DEVELOPERS TOWARD EXISTING CENTER RENOVATION

For many developers in northern California, the powerful earthquake that struck the San Francisco Bay Area last October was ultimate proof that they are on shaky ground at all times.

Anti-growth sentiment has caused burdensome regulatory obstacles in some instances. But the red tape apparently has not kept too many developers from wanting to do business in the northern part of the state, where 4 out of every 10 Californians live.

Mature markets in northern California point developers in the direction of existing center rehabilitation. Building projects from ground up are perceived as politically controversial and financially costly. "Redevelopment renovation" is the dictum of the new decade.

MaceRich, Santa Monica, Calif., operates 11 centers in northern California, including the County East Mall in Antioch, a high-growth suburb of San Francisco. In November 1989, the center was expanded and enclosed.

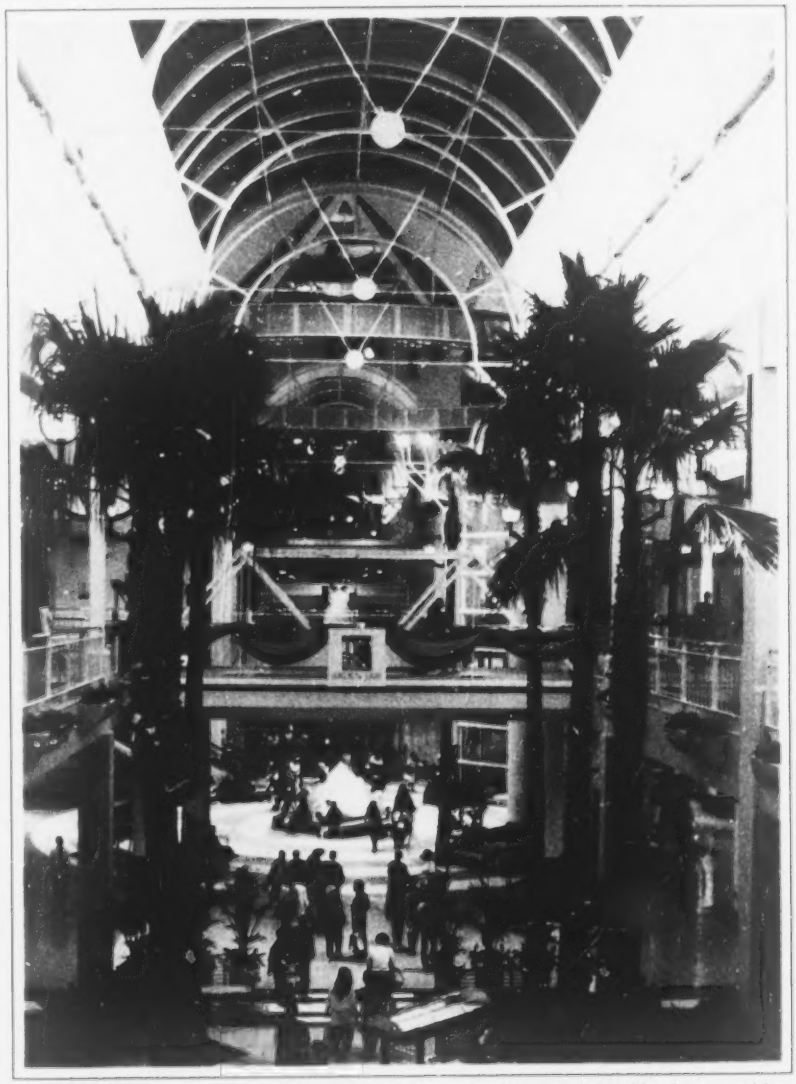
Arthur Coppola, MaceRich's executive vp, says the Antioch project is typical of MaceRich's approach to development in northern California.

Redevelopment of an existing center is "probably the most profitable thing a city can do in California, because the city becomes the beneficiary of sales tax increases," Coppola says. "Antioch was extremely cooperative and acted in a partnership mode with us, trying to stem the outflow of sales tax dollars to [nearby] Concord."

MaceRich has managed to renovate two other malls in northern California communities that had no-growth ordinances on the books. "Those cities gave us approval because it was in their financial welfare to enhance their revenue base," he says.

Coppola notes that MaceRich revitalization projects are not superficial makeovers. "We're not doing cosmetic facelifts; we're doing massive reconstructions." Many communities have grown affluent since their original town centers were built years ago.

"We try to transform properties from a look of the '50s and '70s and bring them into the '90s, completely changing their character and how they are perceived in the community," Coppola says.



***Arden Fair's redevelopment project** takes advantage of the area's healthy demographics.*

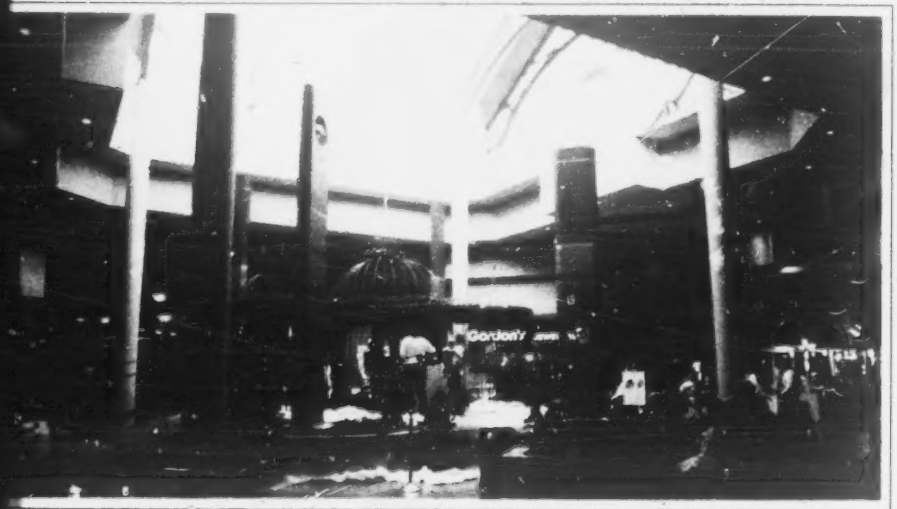
The reputation northern California has garnered for being anti-development has some basis in reality. However, many developers learned long ago how to combat controversy their projects sometimes engender.

Good neighbors: When San Francisco-based Reininga Corp. decided to redevelop 30-year-old Lakeshore Plaza Center, located within the city limits of San Francisco near San Francisco State University, company officials met with neighborhood groups 18 times "to make sure everybody cared about the project and would have information about it," explains vp-development Gary Ward.

Following the neighborhood's approval, the project obtained necessary building permits from governmental agencies and now a new 50,000-sq.-ft. Lucky supermarket, 70,000-sq.-ft. Mervyns and retail/service shops totaling 86,000 sq. ft. are under construction.

SHOPPING CENTER AGE

San Francisco aggregation	Metropolitan Sacramento	North Central Counties
1989 retail sales: $50,446,232,000 ***1989 population:*** 5,835,403 ***1994 population:*** 6,072,294 (projected) ***1989 median household income:*** $36,849 ***1994 median household income:*** $46,240 (projected)	***1989 retail sales:*** $10,478,251,000 ***1989 population:*** 1,391,021 ***1994 population:*** 1,534,908 (projected) ***1989 median household income:*** $25,827 ***1994 median household income:*** $30,855 (projected)	***1989 retail sales:*** $3,142,372,000 ***1989 population:*** 431,321 ***1994 population:*** 468,224 (projected) ***1989 median household income:*** $21,469 ***1994 median household income:*** $25,710 (projected)
Source: Donnelley Marketing Information Services	Source: Donnelley Marketing Information Services	Source: Donnelley Marketing Information Services



MaceRich renovated *County East Mall with cooperation from the city of Antioch.*

Ward says the anti-growth sentiment in northern California "varies from community to community. Some still welcome growth. There is a larger number who tolerate it and a smaller number who outright oppose it."

Developers in northern California say that many residents are well-informed about environmental issues. This awareness has caused some municipalities to emphasize recycling.

"We automatically provide aluminum and glass recycling centers at supermarket projects," Ward says. "We are doing more amenities for the public. We are working on a center in extreme northern California where we are providing a bike path and pedestrian walkway connecting to a building next door.

Such amenities add cost, but Ward says if they are "good for the community, I don't have a problem with them. I want to help the community enjoy life."

Many developers routinely finance amenities such as public streets and signal lights to ease neighborhood transportation congestion. "Virtually every community imposes traffic mitigation fees," Ward says. "There is usually a school fee. In addition to signal lights, we sometimes widen streets around the site, landscape medians, and spruce up the area. We don't even question things like that."

Gemtel Corp., a Los Angeles developer, is helping to fund a $12 million freeway interchange that will provide access to its Pinole Vista Shopping Center. The center is in the Bay Area bedroom community of Pinole.

The 525,000-sq.-ft., open-air shopping center, on 110 acres, is being expanded. When completed, the center will have 1.1 million sq. ft. of retail space. The center commands over 1.5 miles of frontage along I-80, serving western Contra Costa County. It originally opened in 1979 and is being expanded a third time, says Bradley S. Kaye, Gemtel executive vp.

"Two interchanges will serve as bookends to our project," Kaye says. An assessment district composed of local businesses is paying for the interchange. Kaye notes, "It is not costing local municipalities a dime."

The project is expensive but Kaye says, "Obviously, we think we will make money. Most people don't want to be in a cornfield in Iowa. They want to be where the growth is. That continues to be in places like California."

Looking good: Center design and aesthetics are critical to northern California centers. Some developers believe they are held to higher standards than in other regions in terms of the facade, materials and signage.

Development is more costly in areas that have greater infrastructure needs, and those typically are older communities.

In renovating and expanding Downtown Plaza located three blocks west of the state capitol in Sacramento, San Diego-based Hahn is putting in significant modification and reinforcement to a two-level subterranean garage in an effort to bring it up to current seismic standards.

An additional 240,000 sq. ft. will be added to the existing 662,000 sq. ft. center. A new entertainment complex including a multi-screen cinema, shops, restaurants and food court are planned. Construction begins in June; completion is scheduled for fall 1991.

According to Dave Hokanson, project manager, the center will be open-air, yet shoppers will be shaded from the sun and protected from rain by a series of awnings and trellised roof structures throughout the court and arcade areas. An innovative system of climate control for an open-air center is being designed. The architect is Jon Jerde of the Jerde Partnership, Los Angeles.

"Sacramento is a high-growth market," Hokanson says. "From a retailing standpoint, it is a sleeping dog." In fact, Sacramento metropolitan area population has increased at a rate 20% greater than the state's and 160% faster than the national average in the

1980s.

Taking advantage of these healthy demographics is the Arden Fair redevelopment project located at I-80 and Arden Way. The mall originally opened in 1957 and was acquired by Chicago-based Homart in 1987. The project now has a total of 589,000 sq. ft. (74 stores) on 75 acres and will be expanded to 1.02 million sq. ft.

Approximately 200 stores will be added, including new tenant Nordstrom, which has joined existing anchors Sears and Weinstock's.

The new second level mall area is scheduled to open in May.

The October earthquake, ironically, almost caused the cancellation of a shopping center grand reopening in Sacramento, 120 miles away.

The state official in charge of elevator safety inspection said he would not be able to make his appointment at the Arden Fair regional shopping center, jeopardizing the center's long-planned promotion.

At the last moment, the official changed his mind, and he gave the center his blessings before heading off to the Bay Area emergency. Arden Fair's promotion went on as scheduled.

California Northern Coast

1989 retail sales: $1,307,179,000
1989 population: 210,431
1994 population: 218,793 (projected)
1989 median household income: $22,000
1994 median household income: $25,927 (projected)

Source: Donnelley Marketing Information Services

That incident was an unusual event that prompted "a little bit of concern," admits David A. Jones, senior development director for Homart.

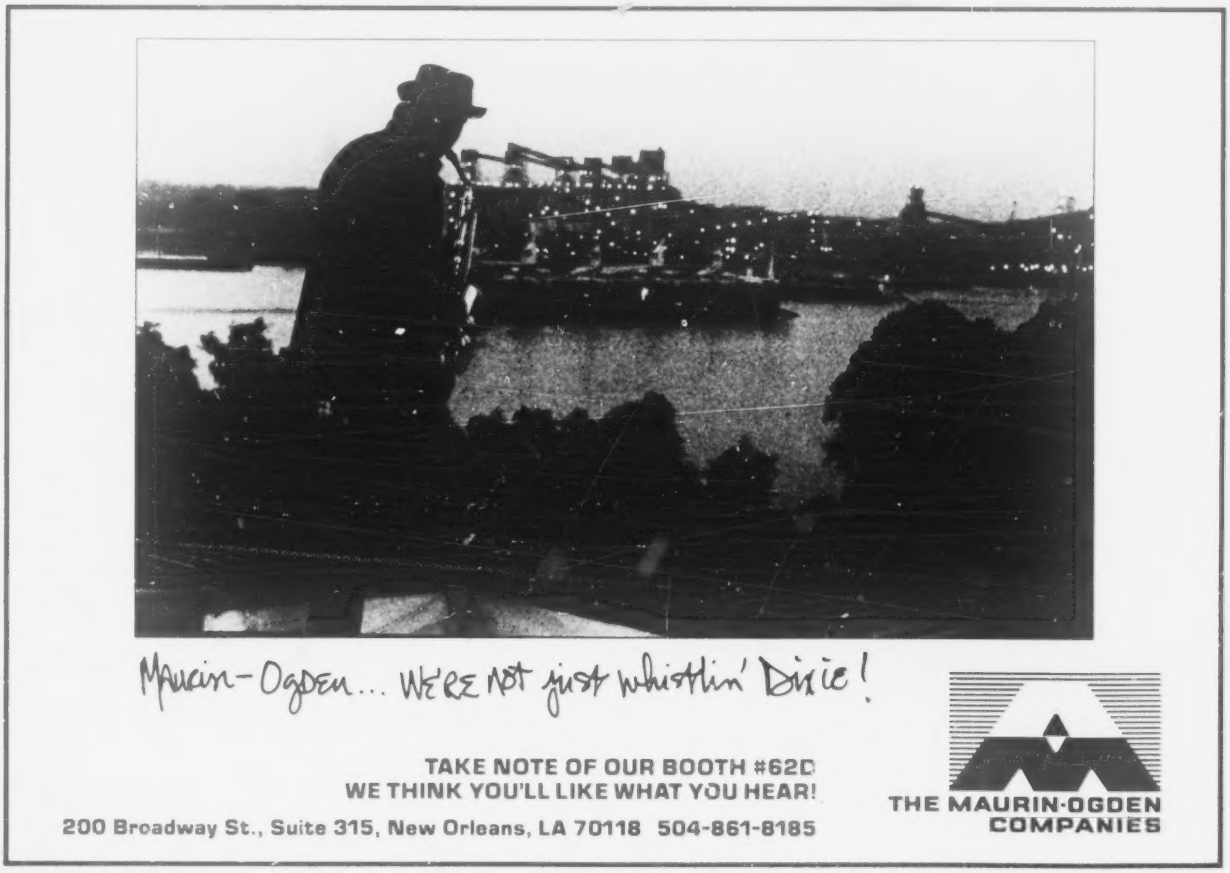
"Being in an earthquake zone, we have to put in steel to brace buildings so they move together in an earthquake, otherwise they would rip themselves apart," Jones says.

Coppola of MaceRich remains bullish on northern California, despite the "very strong no-growth movement in new development which is spurred by traffic concerns more than anything. Traffic is the key concern in most communities."

However, Coppola believes there is still a tremendous potential for renovation redevelopment in northern California.

"Redevelopment is much preferred in your ability to get approvals. Cities do not have to build new infrastructure, new sewers, streets, fire, and police. By taking an existing retail complex and improving it everybody comes out a winner. Redevelopment is much more profitable from the city's standpoint.

"Northern California is one of the most exciting markets in the United States in view of the disposable income available," Coppola says. "There are extremely strong regional retail chains located in northern California that provide the nucleus for some very exciting shopping centers." ■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WAL-MART SET TO PULL AHEAD

EDGES INTO NO. 1 SPOT WITH SALES OF $1.95 BILLION

Wal-Mart, the success story of the '80s, seems ready to dominate the '90s. That is, if sales figures for February, the first month of the new fiscal year for most retailers, are any indication.

Having for some time occupied the niche of being the nation's third largest retailer, Wal-Mart edged ahead of second-place K mart with sales of $1.95 billion, a 33% gain over last year's figures.

K mart's sales were $1.9 billion, a 14.7% overall increase and a 4.4% same-store gain. The company says it is pleased with results in all its divisions, citing particularly strong gains in apparel.

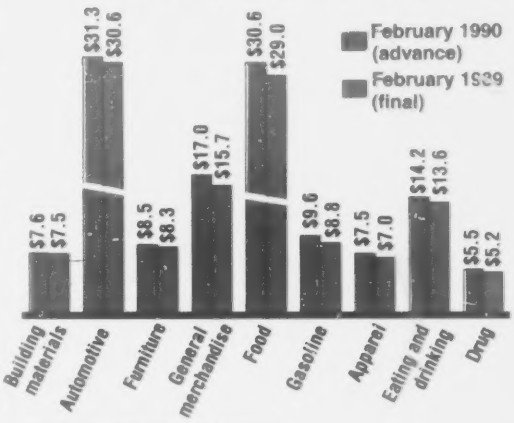
Meanwhile, Sears, the nation's largest retailer, continues to struggle. The company had virtually flat sales in February, at $2.1 billion, with a same-store gain of only 1.5%.

Dallas-based J. C. Penney, which has stepped up its program of adding more national apparel brands, enjoyed a same-store sales gain of 7.2%.

Woolworth's same-store sales climbed 11.7%, a gain strengthened by results at Kinney shoe stores.

FEBRUARY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	February '90 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Sears	$2,126,833	N/C	+ 1.5	$2,126,833	N/C	+ 1.5
K mart	1,904,814	+14.7	+ 4.4	1,904,814	+14.7	+ 4.4
Wal-Mart	1,951,000	+32.5	+17.0	1,951,000	+32.5	+17.0
Penney	880,000	+ 8.1	+ 7.2	880,000	+ 8.1	+ 7.2
Dayton Hudson	821,000	+13.2	+ 6.3	821,000	+13.2	+ 6.3
May	510,200	+ 8.9	+ 6.6	510,200	+ 8.9	+ 6.6
Woolworth	330,000	+13.7	+11.7	330,000	+13.7	+11.7
Melville	503,155	+11.7	+ 5.9	929,805	+10.4	+ 4.9
Walgreen	465,469	+11.2	+ 7.6	959,920	+13.1	+ 9.2
Ward	299,001	+ 2.5	+ 1.7	299,001	+ 2.5	+ 1.7
The Limited	318,200	+20.6	+16.0	318,200	+20.6	+16.0
Ames	263,000	- 0.4	- 2.0	263,000	- 0.4	- 2.0
Carter Hawley Hale	176,800	+ 3.1	+ 2.2	176,800	+ 3.1	+ 2.2
Mercantile	125,938	+ 6.9	+ 6.1	125,938	+ 6.9	+ 6.1
Circuit City	143,200	+25.0	+ 4.0	2,100,000	+22.0	+ 2.0
Hills	115,992	+49.7	+27.0	115,992	+49.7	+27.0
Rose's	112,638	+16.6	+11.3	112,638	+16.6	+11.3
The Gap	103,000	+28.7	+20.0	103,000	+28.7	+20.0
Neiman-Marcus Group	104,900	+ 1.5	+ 0.8	104,900	+ 1.5	+ 0.8
Jamesway	45,234	+18.0	+13.0	45,234	+18.0	+13.0
Ross	43,000	+ 7.5	- 3.0	43,000	+ 7.5	- 3.0
Dollar General	38,400	- 0.3	- 4.3	38,400	- 0.3	- 4.3
Best Buy	39,000	+26.0	+ 8.0	509,000	+ 8.0	N/C
Gottschalks	14,049	+28.0	+15.9	14,049	+28.0	+15.9
Claire's	13,960	+71.0	+27.0	13,960	+71.0	+27.0

N/R = not reported N/C = no change Source: Company reports

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